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THE STATE OF STRATEGIC HUMAN RESOURCE MEASUREMENT IN SPANISH BANKS[1]

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Abstract

The new strategic role of Human Resource (HR) management that many academics and practitioners have been calling for requires that HR systems not only achieve operational excellence in performing their traditional activities but that they also contribute to developing the strategic capabilities needed by the organization to maintain its competitive advantage. This new orientation has important implications for the evaluation of an organization's HR system. Traditional measures of the HR function tend to focus on internal efficiency. In order to determine the success of an HR system in achieving its new role as strategic partner, the strategic impact of HR practices must be evaluated. This requires measuring the contribution of the HR system toward building organizational capabilities, including employee skills, behaviors and attitudes, and the impact that changes at this level have on organizational results. This study presents a strategic HR measurement framework and investigates the current state of HR measurement in five large Spanish banks.

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The State of Strategic Human Resource Measurement in Spanish Banks

Introduction

In the past, the success of an organization's Human Resource (HR) department was defined according to how busy it had been. This can be seen in the traditional measures used to evaluate the HR function, such as number of employees recruited, tested, or trained (Cascio, 1991). Recently, however, organizations are beginning to recognize the value of their people as a source of competitive advantage and, thus, to recognize the need to more carefully manage this "strategic" resource. This new orientation, known as Strategic Human Resource Management, brings with it a new set of roles for the HR function and, consequently, imposes a new set of requirements on HR measurement.

According to this new approach, the HR department should play an active role in the analysis and formulation of an organization's business strategies. The possible impact of all strategic decisions on the organization's intellectual capital must be considered. The constraints imposed by current intellectual capital on the feasibility of alternate strategies must also be taken into account. In order to then implement the chosen strategies, the HR department must establish goals which directly relate to the organization's strategic objectives. HR strategies must be chosen which help the organization achieve its objectives. Finally, the HR department must work with line managers to ensure that the appropriate actions, designed to support the HR strategies, are implemented (Dyer and Holder, 1988). Thus, the HR function should be concerned with strategic analysis, strategy formulation and strategy implementation (Walker, 1999).

This strategic view of HR has important implications for the evaluation of the HR function. Rather than defining the success of a HR department according to the number of people it has recruited or trained, success should be defined according to the contribution of the HR function toward the achievement of an organization's strategic objectives (Cascio, 1991). Traditional measures used to evaluate the HR function were based on internal measures of efficiency, while the impact of HR practices on the ability of an organization to better achieve its objectives was rarely considered. Given the new demands for the HR department, a new approach must be sought in order to evaluate its success. According to Ulrich (1997a, p. 5) this new focus "should be on the deliverables not on the doables."

Strategic HR management is an ongoing process of managing, leading, implementing, and eliciting change. It requires the constant assessment of the environment, competitors, markets, technology, customer requirements, etc. in order to make decisions about the organization's business strategies. The desired organizational capabilities will be constantly changing to support the latest strategy. These capabilities rest in the individual and collective behavior of an organization's employees and one of the strongest and most direct ways that an organization can influence the behavior of its members is through its HR practices. An organization's HR policies send a message to its members as to what behaviors are considered important and therefore expected of them (Cabrera and Bonache, 1999). Thus, again, the importance of a new role for the HR function in the implementation of strategic organizational changes.

So, the question is how to evaluate the success of the HR department in fulfilling its new role. As stated above, success should be defined in terms of how well the HR function helps an organization achieve its strategic goals. But how can we measure this success? Traditional ratios such as HR cost/total operating cost, turnover, acceptances/offers and training hours/employee do not provide information regarding the strategic contribution of HR practices.

Given the obvious need for a new approach to the evaluation of the HR function, the current work presents a framework for strategic HR measurement that is currently surfacing in the field of HR. It also investigates the state of HR measurement in one of Spain's most advanced sector's, the financial sector. The results of interviews conducted with HR managers from some of the largest Spanish banks regarding the evaluation of their HR function are presented. Comparisons are then made between the current HR measurement practices of these banks and the types of measures proposed by the strategic HR measurement framework. The principle goal is to explore the current state of affairs in order to draft a preliminary picture of where companies lie with respect to the ongoing prescriptions for the evaluation of the HR function.

Strategic HR Measurement Framework

A basic tenet of strategic HR management is the idea that an organization's business strategy should be determined with the full consideration of its implications for HR issues. One way of connecting strategy to concrete HR practices is to analyze the critical organizational behaviors necessary for achieving the chosen strategy. Once the required behavior patterns are identified, HR practices should be developed which build and maintain the required behaviors (Yeung and Berman, 1997). Thus, there are two critical questions that must be answered in order to manage the human resource implications of a given strategic change: (a) what behaviors are necessary for the change to be successful? and (b) what managerial interventions can the organization use to elicit these behaviors?

These two questions are related to two parallel questions in the realm of measurement: (a) how well are current behaviors contributing to the achievement of the organization's strategic objectives? and (b) are the current HR practices encouraging the desired behaviors? Neither of these questions can be addressed with traditional HR measures, which focus on the internal efficiency of the HR practices rather than on their effectiveness from a strategic standpoint.

Boudreau and Ramstad (1997) have argued for the importance of separating the impact of HR practices on internal process efficiency from that on employee behaviors and strategic results. Their model proposes the following three levels of HR measurements: 1) what HR does 2) what HR makes happen and 3) business success. The authors argue that measures are needed which "illuminate the middle ground". That is, measures which determine the direct effects that HR practices have on employee behavior and attitudes. Another set of measures should then be used to show how these combined changes produce strategic results.

These same three categories of HR measures have been adopted in practice by Eastman Kodak (Yeung and Berman, 1997). Their strategic HR framework includes measures of business strategy, organizational capabilities, and human resource practices. This, again, is based on the idea that HR practices build the organizational capabilities necessary for achieving an organization's business strategies.

The division of strategic HR measurement into behavioral impact and strategic alignment of behavior fits well with current models of strategy and management control which move beyond the traditional financial-only focus. The Balanced Scorecard, a popular framework of management control proposed by Kaplan and Norton (1992, 1996), supplements traditional financial measures with measures of organizational performance from three other perspectives: customer, internal business processes and learning and growth. The specific measures that an organization includes in its Balanced Scorecard will depend on its strategy and the nature of its activities. Typical financial measures may include revenue growth and cost improvements. Client measures are usually concerned with customer satisfaction or market share. The internal business processes perspective includes the more traditional measures of operational efficiency such as cycle times and specific process costs. Finally, the learning and growth perspective often includes measures of employee satisfaction and skills. Thus, the Balanced Scorecard recognizes that the sustainability of a firm's competitive advantage is not a function of its current financial results, but of its internal operations, its market and client positioning, and, very importantly, of the intellectual capital of its workforce.

These examples of new approaches to HR measurement all share the same basic ideas which can be summarized within a strategic HR measurement framework as presented in Figure 1. At the first level is the cluster of measures of HR practices and the HR function in general. These measures include the more traditional, operational measures of the HR function, such as cost, ratio of offers to number of applicants, hours of training per employee, etc. In the middle is the cluster of measures of organizational capabilities. Included here are measures of employee behavior, attitude and skills. The cluster of measures of strategic results, which should be affected by organizational capabilities, is at the top. Measures within this cluster include both measures of financial results, as well as measures of customer satisfaction, both of which are key strategic objectives.

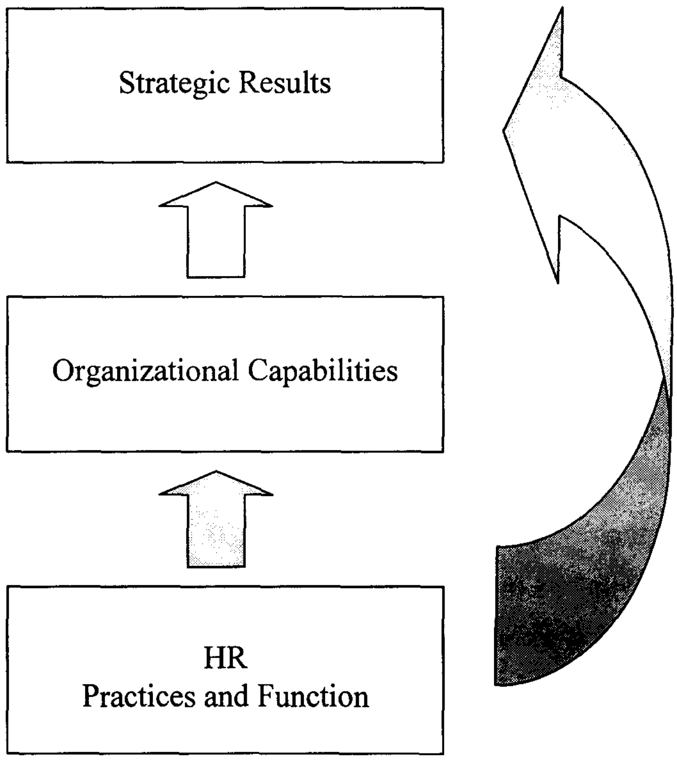

Figure 1: Strategic HR measurement framework.

Not all measures fall within one of the three clusters. It is also necessary to have measures which evaluate the strength of the causal links connecting indicators at different levels. It is not enough to know that business results have improved. One must be able to show that this trend is due to a specific change in behaviors resulting from the introduction of a new HR practice. That is, there must be measures of the impact of HR practices on capabilities and of these, in turn, on strategic results. There are also techniques to measure the direct impact of HR practices on strategic results, such as utility analysis models (Cabrera, 1998).

In their recommendations for improving HR measurement Boudreau and Ramstad (1997) highlight the importance of developing explicit models which specify the links between HR practices, employee behaviors and firm results. The evaluation of these causal links requires an experimental mindset. For example, in order to know that concrete behavioral changes are the result of training, controls must be taken to assure that the observed changes in behavior are, in fact, due to the training. The evaluation of the impact of HR programs must be considered during the design of these programs so that experimental controls can be used to isolate the true effect of each program.

Theory versus Practice

There has long been a gap between the development of research prescriptions for the evaluation of HR and the actual evaluation of HR in practice. Gómez-Mejía and Tsui (1988) surveyed 900 HR executives of whom only 70 (8%) responded that they carried out some type of HR evaluation. And of these, the majority (87%) used indirect or informal evaluation methods. There also seems to be a gap between theory regarding the new strategic role of HR and actual HR practices. Walker (1999) laments that "companies too often set their sights too low, and end up with human resource strategies that are too functional, too operational, too narrow, and too generic." Thus, while it is becoming more clear that the HR function should be playing an active role as strategic partner in today's organization (Ulrich, 1997b) and that the success of HR in realizing this role can only be determined through a strategic HR evaluation, there is reason to question whether either of these is actually occurring in practice.

Interviews

The aforementioned doubts served as the motivation for conducting interviews with a small number of HR executives in Spain in order to assess the current state of the HR function and its evaluation. The financial sector was chosen for a couple of reasons. First, Spanish financial institutions are undergoing significant change due to increased deregulation and global competition. As mentioned before, HR practices play a vital role in implementing strategic organizational change through their influence on the behavior and attitudes of employees (Huselid, 1995; Becker and Huselid, 1998).

Second, given that it is arguably one of the most advanced sectors in Spain, it was expected that the financial sector would be more likely to adopt the latest prescriptions for strategic HR management and measurement.

Structured interviews were conducted with HR executives in the following five Spanish banks: Argentaria, Banco Bilbao Vizcaya, Banco Santander, Banesto and Bankinter. The executives were first shown the strategic HR measurement framework and explained that it was a framework designed to help guide the evaluation of the HR function. They were then told that the study was an exploratory one in which information was sought regarding the HR measures that the bank currently uses.

The framework served to guide the interview. Executives were asked to identify the measures that their bank uses to evaluate its various HR practices, specifically, selection, training, compensation and performance appraisal. For each practice they were first asked to think about more traditional operational measures, then measures linking the practice to employee behaviors, attitudes and skills and, finally, measures of the impact of the practice on strategic results, both financial results and customer satisfaction. Lastly, HR managers were asked how they determine their HR strategies. This question was an attempt to assess the strategic orientation of the HR department.

Results

Selection

Three of the banks use numerous measures to control their selection function. These tend to be statistics of activity such as number of candidates, selection ratio, time to cover a vacancy and internal and external rotation. Two of the managers from these banks commented that they have no specific targets for these ratios, the measures are taken just to control the selection process and identify any problems. For instance, one mentioned that if a position has remained vacant for more than three months it is a problem that has to be looked into. Managers of the other two banks reported that they have few measures of their selection activities.

As far as measuring the cost of selection, the banks are also divided. Three of the banks do not measure the cost of their selection processes. These managers all commented that the selection tends to be internal to the HR department, in which case it is not considered a cost for the bank units who benefit from it. The other two HR managers reported having cost assessments of every single activity carried out by the bank.

A commonality among the banks with regard to the evaluation of their selection procedures is that the principle means of evaluation rests on the opinion of the supervisors or branch managers. All five HR managers expressed the importance of the comments of supervisors regarding the employees whom they receive to cover vacant positions. Two of the banks use formal surveys to assess satisfaction with the selection function, while in three of the banks the assessment of satisfaction of these internal clients is purely informal. One HR manager stated that "you know the selection is working when the branch managers tell you they are satisfied." The other manager reported the use of informal meetings with branch managers to ask their opinions regarding the selection process.

Two of the banks formally evaluate the performance of their new employees. One has a performance review after the first three months and the other has a more elaborate plan of performance management which follows new employees throughout several years. The rest have more indirect ways of evaluating the performance of recently selected candidates, such as tracking the number which have their initial contracts renewed or the number which are promoted within two years.

Finally, none of the banks has measures which attempt to connect the selection function with financial results. The general opinion is that this is impossible. Some HR managers noted that the selection function is accepted by the bank as necessary so there is no need to show the link between selection and financial results. One of the banks does survey their clients as to satisfaction with their employees, however, these results are not linked directly to the selection process.

Thus, according to the framework for strategic HR measurement, the banks tend to have a mix of operational measures of the efficiency of their selection function; some focus more on measures of activity while others focus more on costs. All try to assess in some way the satisfaction of their internal clients with their work in the area of selection.

As far as measures of the impact that the selection function has on employee behaviors or attitudes, the banks have very few. All have some way of seeing if the new employees are succeeding, a couple with formal performance assessments and the rest by seeing if new employees remain with the bank and are promoted. Nonetheless, none of the banks has a systematic evaluation, such as a validity study, which relates their selection procedure with performance results.

Lastly, none of the banks attempts to measure the connection between the selection function and bank results. Most do not even perceive this to be an option. They believe it is impossible to show the impact that selection can have on financial results.

Training

Each of the banks collects numerous measures of training activity, such as hours of training per employee, percent of employees who receive training, type of training and satisfaction of participants. Some of the managers mentioned that these statistics are required by the government agency which subsidizes training. Others commented that these measures are mostly internal control measures for the department. The cost of training, it appears, is carefully controlled by all of the banks.

Only two of the banks attempt to measure the impact of training on employee performance. One of the banks measures participant learning immediately after a training course is completed and sends a questionnaire to supervisors three to four months after the training, asking whether they think the training has helped improve the employee's performance. A second bank uses performance evaluations to see if an employee's abilities have improved as a result of training. A manager in one of the banks which does not measure performance changes admitted that they should try to link changes in performance with training, but that this is not currently done. Another argued that it is not important to directly measure the link between training and performance, adding that "you know the training is working because they keep sending employees to the courses."

None of the banks measures the financial impact of their training efforts. Training is considered by most to be a necessary activity. A budget is allocated to the HR department for training and no further justifications are required. Most banks only want to see a minimum level of satisfaction of training participants and their supervisors. Not only do the HR managers not perceive a need to assess the financial impact of their training programs, they also tend to agree, again, that this is not possible. The manager of one bank said "Do you think that if I give a course in risk management to 15 managers that I can attribute a subsequent reduction in risk from 2.30 to 2.27 to this training? Impossible because there are a million things that affect this ratio. I don't know if things will be better after training, but they won't be worse. And since I don't like the current situation, well, I offer training." One HR manager, however, did admit that the financial impact of training programs is an important measure that the bank should attempt to use in the future.

While none of the banks measures the impact of training on financial results, they do attempt to align training with their bank's business strategies. Training needs are, for the most part, determined by the banks' objectives. One bank has had a very strong focus on training its employees in risk reduction and is now moving towards a focus on sales. The manager of this bank stated specifically that these are the two most important strategic goals of the bank. Also, one of the banks does measure the impact of training on strategic results by assessing the satisfaction of their clients with particular employee attributes that have been addressed with training.

In line with the strategic HR measurement framework, all of the banks measure closely the operating efficiency of their training function. This high amount of concordance may be influenced by a government requirement for obtaining training subsidies. Measures for the next two levels of the measurement model are much less common. Two of the banks measure the impact of training on employee behavior. However, virtually none of the banks attempts to measure the impact of training interventions on financial results, customer satisfaction or other business-related indicators; only one measuring the strategic impact of training in terms of client satisfaction.

Compensation

The banks are all very diligent in terms of collecting statistics regarding salaries. This is not surprising given that personnel costs tend to be the largest cost of a bank's operations. Every one of the banks measures the evolution of salaries and the percent of variable pay that employees receive. Salary statistics are gathered according to level, position, gender, etc. All HR managers agreed that their bank collects every measure possible related to salaries. Benchmarking of external salaries is also a common practice. Two of the HR managers mentioned the use of an informal measure of satisfaction with their salary decisions. They commented that the number of modifications that managers make to their salary proposals lets them know how well they are doing their job.

As far as measures of the impact of compensation policies on employee behavior or satisfaction, the banks have none. This is also the case for estimates of the impact of compensation plans on financial outcomes. Interestingly, all HR managers insisted that, of all of the areas of HR, compensation is the most closely linked to performance and financial outcomes. They all explained that the salaries of their employees depend on both individual performance and the financial results of the bank, given that all of the banks have variable pay programs which link salaries to individual and group outcomes. This, however, is a link from results to pay; better results lead to higher pay. It does not show a relationship in the other direction. That is, how a change in the compensation plan, such as an increase in variable pay, causes a change in employee behavior or financial results. This would demonstrate a causal link in the opposite direction, from pay plans to results.

While the banks do explicitly align compensation with business objectives, they do not evaluate to what extent this alignment helps them to obtain these objectives. It is assumed that because bonus pay depends on achieving certain results and employees earn these bonuses, then the pay plan is achieving the desired behaviors. However, there is no way to know the extent to which these behaviors are the result of the compensation plan and not of other, uncontrolled factors. To demonstrate the effects of pay plans would require some kind of controlled assessment, such as localized pilot experiences to see if different levels of variable pay lead to different levels of achieving individual objectives or financial results.

So, again, measures within the first level of the strategic measurement framework are abundant. Unfortunately, there is virtually no attempt to measure the impact that compensation plans have on employee behaviors or attitudes, nor on strategic results.

Performance Appraisal

All of the banks have performance appraisal programs. One bank has an elaborate 360° evaluation program for all of its employees. Another has a well established program developed within a program to improve internal communication in which all employees participate. A third bank has a performance management system that was developed as part of a wider strategic plan by which the evolution of employee performance is closely monitored. A fourth bank has a simple annual performance appraisal which they hope to further develop in order to evaluate employee capacities. The last bank is still in the process of developing a program for performance evaluation. The program has been pilot tested with a small number of employees but has yet to be used by the whole bank.

Overall, the banks use very few measures to evaluate their performance appraisal systems. Only one mentioned the use of a number of operational measures, such as number of employees evaluated, average performance evaluation and annual changes in employee evaluations. This same bank and one other measure employee satisfaction with the performance appraisal system. With relation to the 2nd and 3rd levels of the measurement framework, none of the banks assesses the impact of performance appraisals on changes in employee behavior or strategic results.

It is clear that the banks do not believe measuring the impact of their performance appraisal systems is important. Only one collects operational measures and only two assess the level of employee satisfaction with their evaluation program. Given that most all of the banks use performance evaluation results to determine the level of bonus pay that employees receive, perhaps they don't see a need to show the impact of these evaluations on employee behavior or bank results. This justification is not necessary because the evaluation of employee performance would still have to be done in order to obtain the information needed for their variable pay plans.

Four of the bank managers clearly believe performance appraisals are important for employee development. Several mentioned the value in using performance appraisals to identify training needs, to assess the impact of training and to make sure that new employees were fulfilling the bank's expectations. Again, all of these uses of performance appraisals relate to other HR functions. So, it may be that the role of performance appraisals is to obtain important information needed by other HR functions so that the independent assessment of the contribution of performance appraisals to employee behavior or bank results is not considered to be necessary.

Strategic Orientation

Four of the five banks clearly base their HR objectives on the bank's strategic objectives. In two of the banks HR managers meet directly with the executive committee to discuss the profile of employees needed to pursue the bank's strategic plans. These profiles are then used to determine HR strategies for selection, training, compensation and performance evaluations. One of these banks has identified capabilities such as team work, communication skills and risk taking to be important for achieving their strategic objectives. A third bank has HR objectives focused on risk management and sales abilities which come directly from the bank's strategic goals. In another bank HR managers meet with managers of new projects to address the human resource implications of the new project.

A fifth bank, however, does not seem to have such a strategic orientation. The HR manager of this bank reported that the HR objectives were related to reducing personnel costs and achieving financial objectives. While these financial objectives may be strategic, implications for the kind of people and behaviors required to meet these objectives are not considered.

Discussion

Strategy and management scholars, organizational psychologists, and some business executives and HR managers are converging towards a view of "people" as a source of competitive advantage. A firm's human capital is believed to meet all the requirements of a "strategic asset," i.e. an asset capable of yielding above average economic rents because it is scarce, hard to imitate and trade, causally ambiguous, path dependent and highly specialized (Wright, McMahan and McWilliams, 1994). Yet, managerial practice does not seem to have kept up with this idea. Current accounting practices, for instance, consider human resource expenditure as a short-term cost to be written off every fiscal year, instead of treating it as a long-term asset. Not surprisingly, given this direct negative impact of human resource expenses on the bottom-line, HR is treated by many as a cost to be minimized, rather than as an investment whose returns need to be optimized.

Managing human resources strategically requires that a firm (a) develop individual practices that are complementary and mutually reinforcing – which is often referred to as *internal* or *horizontal* alignment, and (b) fine tune its set of HR practices to support the kinds of behaviors, skills and attitudes that are required by its business strategy – *external* or *vertical* alignment. Firms vary widely in the extent to which they have internalized this view of their human resource system. According to a number of studies carried out by Becker and Huselid (1998), about 20% of the surveyed firms were struggling with the development of a professional HR function that would simply keep the business running. Another 40% of the firms had a professional HR capability which focused on developing operational excellence in terms of efficiency and cost. The remaining 40% combined this concern with operational excellence with an effort to align HR practices with business objectives. Interestingly, the authors found that, once a certain threshold is reached, further investing in improving operational efficiency does not seem to have a significant impact on financial performance. On the contrary, moving from an operational focus to a more strategic view of the HR function does seem to help raise a firm's profitability.

Our interviews with HR managers in five Spanish banks was an attempt to discover their views concerning the role of the HR function by examining the dominant methods of assessing HR "success." The assumption is that evaluation systems may provide a fair reflection of the actual "theories-in-use" concerning HR systems. In other words, it might not be what managers say about what their HR department does ("espoused theory") but what they actually do to measure its success that more accurately reflects what is expected of the HR department in an organization.

Figure 2 represents our proposal of the four stages of development of a HR department. As Becker and Huselid showed, a firm must be able to successfully carry out certain basic functions in order to survive. These include selecting employees, teaching them the specifics about their jobs, compensating them and complying with labor and safety regulations. At a second, more advanced stage, the organization will start requiring that these tasks be performed as efficiently as possible: that selection helps to fill vacancies swiftly and with good people, that training resources are administered widely and in response to current problems or needs, etc. Some organizations may then move on to a third stage in which HR practices are expected to be aligned with current business strategies. HR departments at this stage may analyze the capabilities required to carry out the organization's strategy and design specific practices to develop such capabilities. The full realization of the potential value of a firm's human capital, however, requires a fourth stage. It is here where the HR function becomes a true strategic partner (Ulrich, 1998), helping to formulate new strategies that take advantage of current human strengths, and proactively searching for novel interventions that will create new sources of competitive advantage.

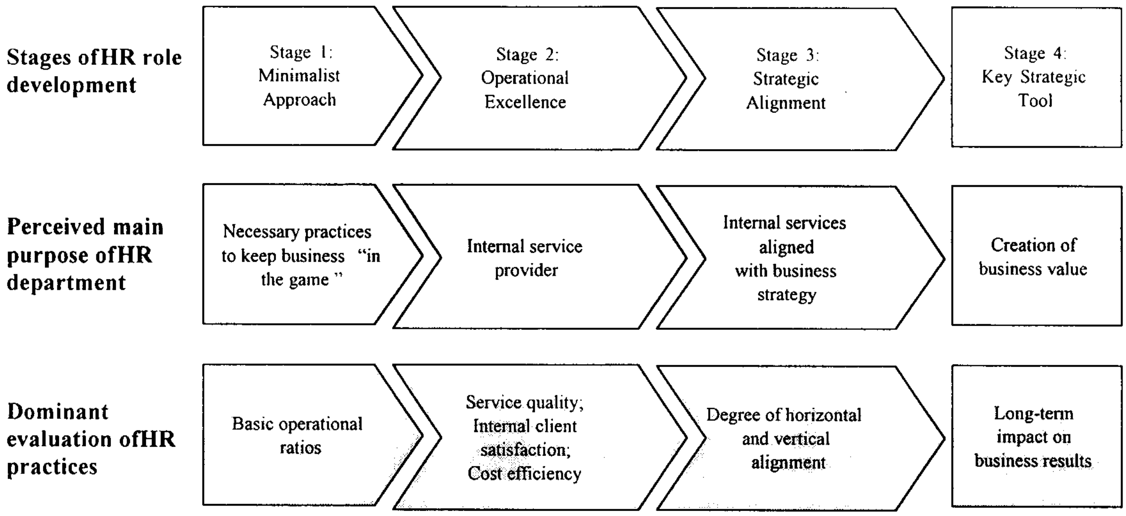

Figure 2: Stages of HR development.

The interviews we have conducted indicate that large Spanish banks are more or less established around Stage 3 of development. Most of the banks keep close track of HR costs and operational efficiency. Increasing deregulation and competition has forced them to develop efficient processes at all levels. Most managers are also proud to be providers of high quality services to the rest of their organization, with many relying on a low number of complaints or a high level of satisfaction of their internal clients as confirmation of their good performance.

Furthermore, most of the managers we interviewed acknowledged the potential strategic value of the HR function and gave examples of how they try to align their practices with the business strategies of their bank. For instance, some allocate more training resources to risk management, sales, or client profitability according to threats or opportunities detected at the corporate level; some align performance appraisal systems with behaviors that are believed to support the bank's business strategy; and most devote an increasing proportion of employee compensation to variable incentives based on an analysis of contributions to financial results.

Nonetheless, while all of the HR executives interviewed argued for the strategic role of HR in their organization, none of them tries to systematically assess the strategic impact of their HR interventions, nor do they experiment with new ways of creating value or reinforcing the current sources of competitive advantage. Some of the managers argued that trying to isolate the contribution of HR is impossible because so many other factors affect bottom-line performance. Others acknowledged the importance of carrying out such assessments, but admitted that they still have a long way to go. In short, while some banks seem mentally prepared to move on to a more "strategic" stage of development, none of them seems technically prepared to do so. It is here where the gap between theory and practice in strategic HR management is made clear. Practitioners are in need of specific methods and techniques that help them to determine the strategic impact of their HR interventions. This, then, should be a key area of future research for strategy, management control and human resource management studies.

Assessing the strategic value of a firm's HR practices is no easy task. According to the causal ambiguity argument, the fact that it is so difficult to track down the concrete factors that are responsible for the current state of our human capital is precisely one of the main reasons why human capital is so valuable. In other words, if it were easy to determine exactly what makes a company's practices superior to those of its competitors, the competitors could reproduce the same HR architecture, thus eliminating the firm's advantage.

The fact that a company's human capital is causally ambiguous does make it extremely difficult, if not impossible, to determine the exact combination of factors that contribute to its success. However, it is not impossible for a firm to assess the strategic value of a particular HR practice. Experimental methods provide assessment procedures that, given appropriate controls, allow for the evaluation of the potential effects of the introduction of a new HR practice or a change in an existing practice. The goal of such assessment procedures is not to sketch a detailed picture of the complex interdependencies between different HR practices, but rather to determine the potential impact on the firm's profitability of specific HR practices.

This experimental mindset is necessary for HR departments who wish to advance to the fourth stage of development. They must be able to provide estimates of the strategic impact of their interventions. That is, they must be able to show, for example, that a training program directly affects an employee's sales or risk management abilities, which are considered to be organizational capabilities necessary for achieving the firm's strategic objectives. Or that, by including the assessment of client service behaviors in the annual performance appraisal, the level of satisfaction of clients with the company's service increases. Or that an increase in variable pay based on branch profits leads to a significant increase in these profits.

Conclusion

The interviews presented here show that Spanish banks are aware of the emerging strategic role of the HR department. Many are making efforts to align their HR practices with their bank's business strategies. While this is a vital stage in the development of HR toward realizing its new role as strategic partner, we argue that it is not enough. The HR department is not truly a strategic partner until it can show how it is contributing to the creation of value. HR managers should not only attend executive committee meetings so that they are aware of the organization's latest strategic focus. They should be actively involved in the formulation of these strategies. Second, they should be able to show the contribution that the HR department makes toward helping the firm achieve its strategic objectives. This impact can only be demonstrated by a carefully designed evaluation of HR practices. The strategic HR measurement framework outlined here could provide a useful starting point to guide this evaluation process.

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